

Message Text

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ORIGIN IO-03

INFO OCT-01 ISO-00 /004 R

66609

DRAFTED BY IO/AGR:DMDAUGHERTY:DKS

APPROVED BY IO/SA:RREIS

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R 261620Z SEP 75

FM SECSTATE WASHDC

INFO AMEMBASSY ROME 0000

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FODAG

FOLLOWING REPEAT STATE SENT ACTION LONFON OTTAWA CANBERRA

TOKYO MOSCOW EC BRUSSELS GENEVA DTD 19 SEP

QUOTE:

C O N F I D E N T I A L

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E.O. 11652:N/A

TAGS: EAGR

SUBJECT: INTERNATIONAL WHEAT COUNCIL PREPARATORY GROUP

LONDON FOR THIGPEN

1. QUOTED BELOW IS TEXT OF US PROPOSAL FOR INTERNATIONAL
GRAIN RESERVES SYSTEM THAT WE INTEND TO PRESENT DURING
SEPTEMBER 29-30 LONDON MEETING OF IWC PREPARATORY GROUP.
EMBASSY LONDON IS REQUESTED TO GIVE COPY TO IWC SECRETARIAT
FOR IMMEDIATE CIRCULATION TO PARTICIPANTS. OTHER ACTION
ADDRESSEES REQUESTED TO PASS TEXT OF PROPOSAL TO OFFICIALS
DEALING WITH GRAIN RESERVES INITIATIVE. (BRUSSELS SHOULD
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ASSURE THAT PAPER REACHES COMMISSION DG FOR AGRICULTURE
RABOT.)

2. FOR OTTAWA - GENERAL OUTLINE OF PROPOSAL DISCUSSED

WITH MINER DURING SEPTEMBER 17 TALKS HERE. TEXT SHOULD BE PROVIDED TO HIM.

3. ACTION ADDRESSEES, EXCEPT MOSCOW, ALSO REQUESTED TO MAKE POINTS WHEN DELIVERING TEXT THAT, IN US VIEW, GRAIN RESERVES SYSTEM MUST BE COMPATIBLE WITH EXPANDED AND LIBERALIZED TRADE IN GRAINS AND THAT USG BELIEVES MOST

APPROPRIATE FORUM FOR NEGOTIATION OF SPECIFIC TRADE LIBERALIZATION ISSUES IS MTN IN GENEVA.

4. BEGIN TEXT:

US PROPOSAL FOR AN INTERNATIONAL GRAIN RESERVES SYSTEM

INTRODUCTION

TWICE IN THIS DECADE UNPREDICTABLE SHORTFALLS IN WORLD GRAIN PRODUCTION HAVE SHARPLY REDUCED AVAILABLE SUPPLIES. THE CONSEQUENCES HAVE BEEN MANIFESTED IN WIDELY FLUCTUATING PRICES AND ABRUPTLY ALTERED CONSUMPTION AND TRADE PATTERNS. IN THESE CIRCUMSTANCES, THE MOST AFFECTED HAVE BEEN THOSE DEVELOPING COUNTRIES WHOSE ECONOMIES ARE MOST VULNERABLE. BUT ALL COUNTRIES HAVE BEEN AFFECTED BY THE COST OF ADJUSTMENTS TO FLUCTUATING GRAIN SUPPLIES.

AFTER CONSIDERING THE ISSUE, THE WORLD FOOD CONFERENCE STRESSED THE URGENCY OF INTERNATIONAL ACTION TO ENHANCE WORLD FOOD SECURITY, WHICH MAY BE DEFINED AS A REASONABLE ASSURANCE OF THE AVAILABILITY OF ADEQUATE FOOD SUPPLIES.

AN INTERNATIONAL AGREEMENT ON NATIONALLY-HELD GRAIN RESERVES WOULD PROVIDE A MEANS FOR OFFSETTING A SIGNIFICANT PORTION OF SERIOUS GLOBAL PRODUCTION SHORTFALLS TO MODERATE THEIR DISRUPTIVE EFFECTS. IN THIS PAPER THE UNITED STATES OUTLINES A CONCEPT FOR SUCH A RESERVE AGREEMENT.

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SIZE AND COMPOSITION OF RESERVES

RESERVES, FOR THIS PURPOSE, WOULD BE HOLDINGS IN EXCESS OF NORMAL WORKING STOCKS. THESE ARE ESTIMATED TO BE 10 PERCENT OF NATIONAL PRODUCTION OR CONSUMPTION, WHICHEVER IS LARGER. ON THIS BASIS, WORLD WORKING STOCKS ARE APPROXIMATELY 100 MILLION METRIC TONS OF ALL GRAINS. RESERVES WOULD BE STOCKS ABOVE THIS LEVEL.

THE RESERVE STOCKS WOULD NEED TO BE LARGE ENOUGH TO MEET A SUBSTANTIAL PORTION OF MAJOR PRODUCTION SHORTFALLS. A RESERVE SUFFICIENT TO OFFSET POTENTIAL PRODUCTION SHORTFALLS COMPLETELY WOULD BE UNREALISTICALLY LARGE AND COSTLY. A RESERVE ADEQUATE TO OFFSET AT LEAST 90 PERCENT OF PRODUCTION

TION SHORTFALLS WOULD SIGNIFICANTLY ENHANCE FOOD SECURITY WHILE BEING MORE FEASIBLE FROM THE STANDPOINT OF SIZE AND COST.

SINCE THE EMPHASIS IS ON IMPROVING FOOD SECURITY, A RESERVE OF 30 MILLION TONS OF WHEAT AND RICE, THE MOST GENERALLY CONSUMED FOOD GRAINS, SHOULD BE ESTABLISHED. WHEAT IS THE MOST WIDELY TRADED FOOD GRAIN AND IS HIGHLY SUBSTITUTABLE FOR RICE. THE RESERVE COULD BE DIVIDED ALONG THE LINES OF 25 MILLION TONS OF WHEAT AND 5 MILLION TONS OF RICE. THIS STOCK WOULD BE SUFFICIENT TO OFFSET OVER 90 PERCENT OF PROJECTED DEVIATIONS BELOW THE WORLD PRODUCTION TREND AND WOULD MEET ALL OF THE CRITERIA PROPOSED HERE.

CONSIDERATION SHOULD BE GIVEN TO WHETHER STOCKS OF COARSE GRAINS ARE NEEDED, SINCE THESE ARE USED FOR FOOD IN SOME AREAS OF THE WORLD AND A SHORTFALL IN THE PRODUCTION OF FEED GRAINS INCREASES THE DEMAND FOR WHEAT AS ANIMAL FEED.

DISTRIBUTION OF RESERVE HOLDINGS
THE RESPONSIBILITY FOR HOLDING RESERVES WILL NEED TO BE EQUITABLY SHARED AMONG PARTICIPANTS. THE CRITERIA FOR DETERMINING THESE SHARES SHOULD TAKE INTO ACCOUNT HISTORIC ROLE OF PARTICIPANTS IN GRAIN PRODUCTION AND TRADE AND FINANCIAL CAPACITY, AND SHOULD BE BASED UPON GENERALLY AVAILABLE AND ACCEPTED DATA. MEASURES OF TRADE IN FOOD
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GRAINS, GROSS DOMESTIC PRODUCT, AND VARIANCE IN PRODUCTION MEET THESE CRITERIA.

GUIDELINES FOR HOLDING AND RELEASING RESERVES
CONTINUATION OF FULL PRODUCTION POLICIES ON THE PART OF MAJOR PRODUCERS SHOULD PROVIDE SUPPLIES OF GRAIN ADEQUATE TO PERMIT THE BUILDUP OF RESERVES. HOWEVER, INTERNATIONALLY AGREED RULES OR GUIDELINES WILL BE REQUIRED TO ASSURE PROPERLY COORDINATED ACTION. ACTION TO INCREASE RESERVE HOLDINGS WOULD BE TRIGGERED BY A QUANTITATIVE INDICATOR BASED UPON STOCK LEVELS AND DEVIATIONS IN PRODUCTION FROM THE LONG-TERM PRODUCTION TREND.

WHEN PRODUCTION IS ESTIMATED TO EXCEED THE LONG-TERM TREND BY AN AGREED PERCENTAGE, PARTICIPANTS WOULD BE REQUIRED TO INCREASE RESERVES. WITH REGARD TO RESERVES ACCUMULATION, THE OBLIGATION OF ANY PARTICIPANT WOULD NOT GO BEYOND ITS SHARE OF RESERVE HOLDINGS, ALTHOUGH A PARTICIPANT WOULD BE FREE TO ACCUMULATE RESERVES ABOVE THAT AMOUNT AT ITS DISCRETION.

LIKewise, AGREED RULES OR GUIDELINES WOULD BE NEEDED TO GOVERN DRAW-DOWN OF RESERVES. THERE MUST BE A CLEAR PRESUMPTION THAT ALL PARTICIPANTS WILL MAKE RESERVES AVAILABLE WHEN NEEDED. CONVERSELY, RESERVES MUST NOT BE RELEASED PREMATURELY OR EXCESSIVELY AND THUS UNNECESSARILY DEPRESS MARKET PRICES. NATIONAL ACTION TO RELEASE RESERVES

WOULD BE TRIGGERED BY A QUANTITATIVE INDICATOR BASED ON STOCK LEVELS AND PRODUCTION SHORTFALLS OPERATING IN A MANNER SIMILAR TO THAT FOR ACQUIRING RESERVES.

A RESERVE SYSTEM BASED ON A TWO-STAGE RESPONSE TO SHORTAGE SITUATIONS WOULD PROVIDE FLEXIBILITY IN MEETING SHORT SUPPLY SITUATIONS, WHILE ASSURING THAT RESERVES WOULD BE RELEASED WHEN NEEDED.

(1) WARNING STAGE. WHEN A POTENTIAL SHORTAGE SITUATION--DEFINED BY AN AGREED INDICATOR--WAS IDENTIFIED, LIMITED OFFICIAL USE
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PARTICIPANTS IN THE AGREEMENT WOULD CONSULT TO DETERMINE WHAT ACTION, IF ANY, WAS WANTED AND TO COORDINATE THE MEASURES EACH WOULD TAKE WITHIN PREVIOUSLY AGREED GUIDELINES.

THESE GUIDELINES COULD PROVIDE FOR:

--MEASURES TO REDUCE STOCKS (APART FROM RESERVES)BLN

--REDUCTION OF WHEAT FEEDING TO LIVESTOCK

--REDUCTION OR ELIMINATION OF EXPORT BARRIERS

--EXCHANGE OF ADDITIONAL INFORMATION ON ANTICIPATED PRODUCTION AND TRADE LEVELS INCLUDING PURCHASE AND SALE PLANS OF GOVERNMENT-CONSTITUTED BUYING AND SELLING AGENCIES

(2) SHORTAGE STAGE. WHEN A SHORTAGE SITUATION WAS IDENTIFIED BY AN AGREED INDICATOR, PARTICIPANTS WOULD BE OBLIGED TO MAKE AVAILABLE RESERVE STOCKS UP TO THE RESERVE HOLDING COMMITMENT OF EACH. THE QUANTITIES TO BE MADE AVAILABLE WOULD BE DETERMINED THROUGH CONSULTATION, TAKING INTO ACCOUNT THE SUPPLY SITUATION IN PARTICIPATING COUNTRIES AND THE EFFECT OF ACTIONS PREVIOUSLY TAKEN IN THE WARNING STAGE. IF A PARTICIPANT WERE WILLING TO MAKE MORE THAN THE MINIMUM QUANTITY AGREED UPON, IT COULD DO SO.

ACCESS TO SUPPLIES
PARTICIPANTS IN THE SYSTEM SHOULD RECEIVE ASSURED

ACCESS TO SUPPLIES AT MARKET PRICES. NON-PARTICIPANTS
OR PARTICIPANTS NOT COMPLYING WITH THE AGREEMENT, WOULD
NOT BE ASSURED OF OBTAINING ACCESS TO RESERVES HELD BY
OTHERS.

- SHOULD A SHORTAGE BE SO SEVERE THAT PARTICIPANTS WERE
FORCED TO APPLY EXPORT RESTRAINTS AFTER HAVING TAKEN THE
MEASURES OUTLINED IN THE WARNING AND SHORTAGE STAGES
ABOVE, THEY WOULD GIVE PREFERENTIAL TREATMENT TO OTHER
COMPLYING PARTICIPANTS.

PARTICIPATION AND DURATION
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PARTICIPATION IN THE AGREEMENT SHOULD BE OPEN TO ALL
GOVERNMENTS REPRESENTED AT THE WORLD FOOD CONFERENCE AND
THE GOVERNMENT OF ANY COUNTRY PARTY TO THE INTERNATIONAL
WHEAT AGREEMENT.

A GOVERNMENT COULD WITHDRAW FROM THE AGREEMENT UPON
DUE NOTICE, BUT WOULD BE REQUIRED TO FULFILL ITS COMMIT-
MENTS UNDER THE AGREEMENT WITH REGARD TO THE MANAGEMENT
OF RESERVES FOR THE CURRENT CROP YEAR AND THE CROP YEAR
IMMEDIATELY FOLLOWING.

THE AGREEMENT WOULD HAVE A FIVE YEAR TERM BUT COULD BE
DISSOLVED 12 MONTHS AFTER A DECISION EFFECTED BY A
MAJORITY OF THE VOTES OF BOTH THE EXPORTING PARTICIPANTS
AND THE IMPORTING PARTICIPANTS, COUNTED SEPARATELY.

SPECIAL PROVISIONS FOR DEVELOPING COUNTRIES

SPECIAL ASSISTANCE SHOULD BE EXTENDED TO PARTICIPATING
DEVELOPING COUNTRIES TO ASSIST THEM WITH MEETING THEIR
OBLIGATION TO HOLD A PORTION OF GLOBAL RESERVES.

DEVELOPING COUNTRIES WITH LARGER RESERVE OBLIGATIONS
COULD BE PROVIDED WITH FINANCIAL OR FOOD AID TO HELP THEM
MEET THEIR COMMITMENTS. THE AGGREGATE SHARES OF
DEVELOPING COUNTRIES WITH SMALL RESERVE OBLIGATIONS COULD
BE ADDED TO THE RESERVE OBLIGATION OF DEVELOPED PARTICI-
PANTS WITHOUT GREATLY INCREASING THESE COMMITMENTS. THIS
DUAL APPROACH WOULD HELP ASSURE THAT RESERVE TARGETS WERE
ACHIEVED IN DEVELOPING COUNTRIES WITHOUT IMPOSING AN
UNDUE FINANCIAL BURDEN.

ADMINISTRATION OF THE SYSTEM

EACH PARTICIPATING COUNTRY SHOULD BE FREE TO DETERMINE
HOW ITS RESERVES WILL BE MAINTAINED AND WHAT MEASURES TO
PROVIDE FOR THEIR BUILDUP, HOLDING AND DRAW-DOWN.

HOWEVER, PARTICIPANTS WOULD HAVE TO ASSURE THEIR
ABILITY TO FULFILL THEIR OBLIGATIONS UNDER THE AGREEMENT.
THE AGREEMENT WOULD NOT -ATTEMPT TO SPECIFY WHATMANNER
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IN WHICH-INDIVIDUAL-PARTICIPANTS WOULD MEET THEIR
OBLIGATIONS.

TO ACCOMPLISH ITS OBJECTIVES, THE SYSTEM WOULD
REQUIRE PROVISION FOR EXCHANGE OF INFORMATION AND DATA
REGARDING CROP PROSPECTS, SUPPLY AVAILABILITIES AND

STOCK, ANTICIPATED DEMAND AND INTERNATIONAL TRADE IN
GRAIN. SUCH INFORMATION WOULD BE NEEDED ON A TIMELY
BASIS.

THE AGREEMENT WOULD NEED TO PROVIDE FOR GOVERNING AND
EXECUTIVE BODIES AS APPROPRIATE. THESE BODIES, AND THE
AGREEMENT ITSELF, COULD BE INDEPENDENT OF EXISTING INTER-
NATIONAL ORGANIZATIONS, BUT THE INTERNATIONAL WHEAT COUNCIL
COULD BE ASKED TO PROVIDE FACILITIES AND THE SERVICES OF
ITS SECRETARIAT TO ADMINISTER THE AGREEMENT. ACTIVITIES
OF THE GOVERNING AND EXECUTIVE BODIES SUCH AS MEETINGS,
REPORTING REQUIREMENTS, ETC., WOULD NEED TO BE COORDI-
NATED TO THE EXTENT POSSIBLE.

ADMINISTRATIVE COSTS, E.G. FOR MEETING FACILITIES AND
THE SEGMENTS OF THE SECRETARIAT, WOULD BE BORNE: (1) BY
COUNTRIES WHICH ARE MEMBERS OF THE IWC THROUGH THEIR
CONTRIBUTIONS TO THAT ORGANIZATION AND (2) BY COUNTRIES
NOT MEMBERS OF THE IWC THROUGH THEIR DIRECT CONTRIBUTIONS
TO THE IWC OF A PRO RATA SHARE OF THESE COSTS.

MEMBERS OF THE RESERVES AGREEMENT WOULD BEAR THE COSTS

OF MANAGING THEIR OWN RESERVES. END TEXT.
KISSINGE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, TEXTS, GRAINS, STOCKPILES
Control Number: n/a
Copy: SINGLE
Draft Date: 26 SEP 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: SmithRJ
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE223609
Document Source: ADS
Document Unique ID: 00
Drafter: IO/AGR:DMDAUGHERTY:DKS
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: D750335-0828
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197509105/baaaabzj.tel
Line Count: 314
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN IO
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: SmithRJ
Review Comment: n/a
Review Content Flags:
Review Date: 22 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 APR 2003 by BoyleJA>; APPROVED <30 SEP 2003 by SmithRJ>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: EAGR, US, IWC-2
To: n/a INFO ROME
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006